



04019778

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

BB 9/1

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-44516

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING July 01, 2003 AND ENDING June 30, 2004
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Oriental Financial Services Corp.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

996 San Roberto Street, Suite 201

(No. and Street)

San Juan

P.R.

00926

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Deloitte & Touche

Western Bank World Plaza (Name - if individual, state last, first, middle name)

268 Muñoz Rivera Ave., Suite 1200 San Juan, P.R. 00918-2511

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED
SEP 03 2004
THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

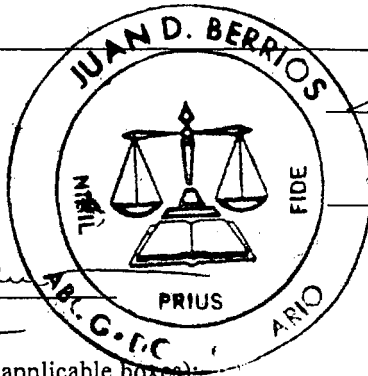
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

BB

OATH OR AFFIRMATION

I, Patrick J. Dunn, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Oriental Financial Services Corp., as of June 30, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Affidavit: 4495



Patrick J. Dunn
Signature

SVP - Principal
Title

Juan D. Berrios
Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Deloitte & Touche LLP
1200 Westernbank World Plaza
268 Muñoz Rivera Avenue
San Juan, PR 00918-2511
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder
of Oriental Financial Services Corp.:

We have audited the following financial statements of Oriental Financial Services Corp. (the "Company"), a wholly owned subsidiary of Oriental Financial Group Inc., for the year ended June 30, 2004, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934:

	<u>Page</u>
Statement of Financial Condition	3
Statement of Income	4
Statement of Cash Flows	5
Statement of Changes in Stockholder's Equity	6

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Oriental Financial Services Corp. as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following supplemental schedules of Oriental Financial Services Corp. as of June 30, 2004, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934:

	<u>Page</u>
Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934	10-11
Computation for Determination of Reserve Requirements and Information Relating to Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934	12

These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

August 10, 2004

Stamp No. 2004988

affixed to original.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

STATEMENT OF FINANCIAL CONDITION
JUNE 30, 2004

ASSETS

Cash and cash equivalents	\$5,496,744
Deposit with clearing organization	50,000
Receivables:	
Broker-dealers and other	106,842
Accrued interest	2,576
Securities owned-at fair value	573,552
Securities sold but not yet delivered	25,016
Prepaid expenses and other assets	28,617
Property and equipment, net of accumulated depreciation of \$353,352	<u>452,632</u>
TOTAL	<u>\$6,735,979</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Due to affiliate	\$ 22,536
Accounts payable and accrued expenses	<u>442,923</u>
Total liabilities	<u>465,459</u>

STOCKHOLDER'S EQUITY:

Common stock, \$1 par value; 1,000 shares authorized, issued and outstanding	1,000
Additional paid in capital	4,406,238
Retained earnings	<u>1,863,282</u>
Total stockholder's equity	<u>6,270,520</u>

TOTAL	<u>\$6,735,979</u>
--------------	---------------------------

See notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

STATEMENT OF INCOME
YEAR ENDED JUNE 30, 2004

REVENUES:

Commissions	\$4,177,087
Interest and dividends	140,910
Investment banking	2,561,830
Other income	<u>178,762</u>
Total revenues	<u>7,058,589</u>

EXPENSES:

Employee compensation and benefits	2,361,693
Management and service fees	1,763,046
Communications	179,976
Clearing broker fees	470,788
Advertising and promotion	201,315
Occupancy and equipment	416,988
Professional services	200,577
Taxes other than payroll and income taxes	108,946
Other	<u>247,737</u>
Total expenses	<u>5,951,066</u>

INCOME BEFORE INCOME TAXES 1,107,523

INCOME TAX EXPENSE 384,029

NET INCOME \$ 723,494

See notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 723,494
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	210,362
Decrease in:	
Receivables	147,007
Securities owned-net	438,137
Prepaid expenses and other assets	90,297
Increase (decrease) in:	
Due to affiliate	(116,298)
Accounts payable and accrued expenses	<u>374,516</u>
Net cash provided by operating activities	1,867,515

CASH FLOWS FROM INVESTING ACTIVITIES—

Purchases of property and equipment	<u>(66,224)</u>
-------------------------------------	-----------------

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,801,291

CASH AND CASH EQUIVALENTS—Beginning of period 3,668,453

CASH AND CASH EQUIVALENTS—End of period \$5,469,744

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION—

Non-cash activity—Securities sold but not delivered \$ 25,016

See notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
YEAR ENDED JUNE 30, 2004

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
BALANCE—Beginning of Period	\$ 1,000	\$4,406,238	\$ 1,139,788	\$5,547,026
Net Income	<u> </u>	<u> </u>	<u>723,494</u>	<u>723,494</u>
BALANCE—End of Period	<u>\$ 1,000</u>	<u>\$4,406,238</u>	<u>\$ 1,863,282</u>	<u>\$ 6,270,520</u>

See notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business—Oriental Financial Services Corp. (the “Company”) is a wholly owned subsidiary of Oriental Financial Group Inc. (the “Group”). The Company is incorporated under the laws of the Commonwealth of Puerto Rico. The Company is engaged in brokerage, underwriter syndicate and offerings, and investment advisory services in Puerto Rico and is a member of the National Association of Securities Dealers, Inc. (NASD) and the Securities Investor Protection Corporation. The Company is approved as a registered broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The Company does not carry customer accounts and is accordingly exempt from the Customer Protection Rule (SEC Rule 15c3-3) pursuant to provision K(2)(ii) of such rule.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America. The following is a summary of the Company’s most significant accounting policies:

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies in the statement of financial condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities Transactions—Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers’ securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Securities owned are carried at fair value and the changes in fair value are included as income for the reporting period.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is computed on a straight-line basis using estimated useful lives, which range from five to ten years.

Commissions—Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Investment Banking Fees—Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger-and-acquisition and financial restructuring advisory services. Investment banking management fees are recorded on the offering date, sales concessions on settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Other Income and Expenses—Other income and expenses are accounted for on the accrual basis.

Accounting for Transfers of Financial Assets and Extinguishments of Liabilities—The Company recognizes the financial assets it controls and the liabilities it has incurred. At the same time, it derecognizes financial assets when control has been surrendered, and liabilities when they are extinguished.

Income Taxes—The Company follows an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Group's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted laws and rates applicable to periods in which temporary differences will be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Statement of Cash Flows—For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business. Cash equivalents include money market investments.

2. SECURITIES OWNED

Securities owned at June 30, 2004, carried at market value, are as follows:

GNMA certificates	\$ 26,312
PR Government securities	537,520
Collateralized mortgage obligation	<u>9,720</u>
Total	<u>\$ 573,552</u>

3. CLEARING AGREEMENT

The Company has entered into a clearing agreement (the "Agreement") with National Financial Services Corp. ("NFSC"). NFSC is a member of various stock exchanges and is subject to the rules and regulations of such organizations as well as those of the Securities and Exchange Commission ("SEC"). Under the terms of the Agreement, NFSC clears and executes the brokerage transactions of the Company's customers on a fully disclosed basis. The Agreement states that the Company will assume customer obligations if a customer of the Company defaults.

4. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At June 30, 2004, the Company had net capital of \$5,497,217, which was \$5,247,217 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was .08 to 1.

5. TRANSACTIONS WITH AFFILIATED COMPANIES

The Company receives technical, operational and consulting services from Oriental Bank & Trust (the "Bank") for which it is charged a management and service fee. For the year ended June 30, 2004, the Company was charged \$1,763,046 by its affiliate for these services. The balance due to affiliate includes certain disbursements made by the Bank on behalf of the Company which were paid shortly after fiscal year end. These amounts are not subject to interest charges.

6. INCOME TAXES

The Company is subject to Puerto Rico income tax at rates ranging from 20% to 39%.

7. CONTINGENCIES

In the normal course of business, the Company executes, settles and finances customer, correspondent and proprietary securities transactions. These activities may expose the Company to off-balance-sheet risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

* * * * *

SCHEDULE I

ORIENTAL FINANCIAL SERVICES CORP.

(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934 JUNE 30, 2004

Computation of Net Capital

Total stockholder's equity from Statement of Financial Condition		\$ 6,270,520
Deduct: Stockholder's equity not allowable for net capital		-
Total stockholder's equity qualified for net capital		6,270,520
Add: Allowable subordinated liabilities		-
Other (deductions) or allowable credits		-
Total capital and allowable subordinated liabilities		6,270,520
Deductions and/or charges:		
Total nonallowable assets	\$ 578,716	
Capital charges for spot and commodity futures	-	
Other deductions and/or charges	45,000	623,716
Other additions and/or allowable credits		-
Net capital before haircuts on securities positions		5,646,804
Haircuts on securities:		
Contractual commitments		
Subordinated debt		
Exempt investment securities		
Debt securities	36,878	
Other securities	112,709	
Undue concentration		
Other	-	149,587
Net capital		<u>\$ 5,497,217</u>

Computation of Basic Net Capital Requirement

Minimum net capital required (based on aggregate indebtedness) (15 to 1 ratio)	\$ 28,096
Minimum dollar requirement	<u>\$ 250,000</u>
Net capital requirement (greater of two amounts above)	<u>\$ 250,000</u>
Net capital	<u>\$ 5,497,217</u>
Excess net capital	<u>\$ 5,247,217</u>
Excess net capital at 1,000% (net capital less 10% of aggregate indebtedness)	<u>\$ 5,450,671</u>

Note: No material difference exists between the audited Computation of Net Capital and the corresponding schedules in the Company's unaudited June 30, 2003, Form X-17A-5, Part II-A filing, as amended.

SCHEDULE I

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1
UNDER THE SECURITIES EXCHANGE ACT OF 1934
JUNE 30, 2004

Computation of Aggregate Indebtedness

Aggregate indebtedness from Statement of Financial Condition	\$ 465,459
Add: Drafts for immediate credit	-
Market value of securities borrowed where no equivalent is paid or credited	-
Other	-
Total aggregate indebtedness	<u>\$ 465,459</u>
Ratio: Aggregate indebtedness to net capital	<u>.08 to 1</u>

Schedule of Nonallowable Assets

Receivable from broker-dealers and accrued interest	\$ 97,467
Prepaid expenses and other assets	28,617
Furniture and equipment, net	<u>452,632</u>
Total nonallowable assets	<u>\$ 578,716</u>

SCHEDULE II

ORIENTAL FINANCIAL SERVICES CORP.

(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
AND INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3
UNDER THE SECURITIES EXCHANGE ACT OF 1934
JUNE 30, 2004**

The Company has entered into a clearing agreement (the "Agreement") with National Financial Services Corp. ("NFSC"). Under the terms of the Agreement, NFSC clears and executes the brokerage transactions of the Company's customers on a fully disclosed basis. In management's opinion, the Company has complied with the exemptive provisions under Rule 15c3-3 for the year ended June 30, 2004.

August 10, 2004

To the Board of Directors and Stockholder
of Oriental Financial Services Corp.:

In planning and performing our audit of the financial statements of Oriental Financial Services Corp. (the "Company"), a wholly owned subsidiary of Oriental Financial Group Inc., for the year ended June 30, 2004 (on which we have issued our report dated August 10, 2004), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (the "Commission") above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use, or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Company's internal control and its operation (including control activities for safeguarding securities) that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at June 30, 2004, to meet the Commission's objectives.

This report is intended solely for the information and use of the board of directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

Stamp No. 2004989

affixed to original.